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May 6, 2003

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: Petition of Massachusetts Electric Company and Nantucket Electric Company for
Approval of a Rate Reconciliation and Adjustment filing, D.T.E. 02-79

Dear Secretary Cottrell:

Massachusetts Electric Company and Nantucket Electric Company (collectively, “MECo” or the “Company”) have filed a petition seeking the Department’s approval of their 2002 Rate Reconciliation and Adjustment Filing (“Reconciliation Filing”). The Company asserts in its letter in lieu of brief that all adjustments and reconciliations made in the Reconciliation Filing are appropriate. The Attorney General responds in this letter brief.

The sole issue in dispute is whether customers should pay for the Company’s estimated \$2.1 million error in misclassifying several thousand standard-offer customers as default service customers.¹ Exh. MECo-1, Burns Testimony, pp. 9-10, Exh. DTE-1-3, Tr., pp. 25-27. The facts surrounding the dispute are relatively straightforward. The Company improperly placed approximately 15,000 customers on Default Service instead of Standard Offer Service. This mistake has proven to be costly because, at the time of the placements, Default Service was more expensive than Standard Offer Service.² The Company has calculated the cost of its error, the difference between Default Service revenues and Standard Offer Service revenues for the misclassified customers, at approximately \$2.1 million. Exh. MECo-1, Burns Testimony, pp. 9-

¹ The Company’s misclassification error resulted in a class-action lawsuit. On June 20, 2002, the Company entered into a Stipulation and Agreement of Compromise and Settlement to resolve all claims arising from that lawsuit.

² The Company procures electricity for Default Service at a market rate and procures electricity for Standard Offer Service at a fixed formula rate. The Company pays third-party power suppliers for the electricity it procures and passes those costs onto its customers.

10. The Company refunded that difference---\$2.1 million---to the affected customers because the Company had overcharged them for their electric service as a result of the Company's error. *Id.* at pp. 9-10. Now, there is a \$2.1 million discrepancy in power costs. The Company seeks recovery of that \$2.1 million in its Reconciliation Filing. *See* Exh. MCo.-1.

Customers should not have to bear the cost of the Company's mistakes. If the Company had not misclassified its customers, there would be no discrepancy. The Company admits this, stating that if it had not made an error, it would have charged standard-offer customers the appropriate lower standard-offer rate and that standard-offer suppliers would have provided that power at prices lower than the rates the Company paid to default service suppliers. Tr., p. 26. The Department should not reward the Company, to the detriment of its customers, for making mistakes. Instead, the Department should deny the Company's request to recover the estimated \$2.1 million from its customers and require the Company to make the appropriate adjustments removing this expense in next year's reconciliation filing.

Respectfully submitted,

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